



## CITY OF LODI COUNCIL COMMUNICATION

**AGENDA TITLE:** Adopt resolution establishing Market Cost Adjustments to be effective December 2, 2005 (EUD)

**MEETING DATE:** November 16, 2005

**PREPARED BY:** Interim Electric Utility Director

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**RECOMMENDED ACTION:** That the City Council adopt a resolution establishing Market Cost Adjustments to be effective December 2, 2005.

**BACKGROUND INFORMATION:** On October 18, 2005, the financial status of the Electric Utility was reviewed with the City Council at a Shirtsleeve Session. This review demonstrated that:

- Purchased power expenses had increased by 29% over the prior years cost of power;
- The utility had been operating in a deficit condition (expenses exceeding revenues) since FY03, relying on fund balances (savings) to make up for the difference between revenues and expenses;
- Operating expenses would exceed revenues by \$9.2 million and all remaining fund balances (savings accounts) available to the electric utility would be eliminated during the current fiscal year if a Market Cost Adjustment to rates was not put in place; and
- Delays in implementing the Market Cost Adjustment would cause the electric utility to incur losses of approximately \$800,000 per month that would need to be made up through higher increases to all customers of approximately 1.2% per month for each month of delay in implementing the MCA.

On October 19, 2005, the City Council was presented with the financial information described above for a second time, along with information that set out the Market Cost Adjustment for each class of customer and an assessment of the effect of the recommended Market Cost Adjustment on the average customer within each rate class. As part of the October 19, 2005 council meeting, the City Council also received feedback from the public, including the large industrial customers slated to receive the largest increases, that the magnitude of the increase was too large, and the timing of the increase with such short notice significantly and adversely impacted their budgeting and planning processes.

After hearing from staff and the public, and deliberating on staff and public comments, the City Council approved the first reading of Ordinance 1765, which would allow implementation of a Market Cost Adjustment through resolution, and directed staff to modify the originally recommended Market Cost Adjustment to reflect:

1. The recommended MCA for the I1 rate class should be reduced by 50%, and
2. No customers should receive a decrease in their bill as a result of the Market Cost Adjustment to reflect the principle that the entire community would help to solve the financial problem facing the electric utility.

On November 2, 2005 City Council approved the second reading of Ordinance 1765, which will eliminate the Market Cost Adjustment, which has been in effect since 2002, and which further provides that all

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APPROVED:

A handwritten signature in dark ink, appearing to read "Blair King", written over a horizontal line.

Blair King, City Manager

future Market Cost Adjustments will be implemented by Resolution. Council also received a presentation and materials that previewed the new Market Cost Adjustment (MCA) table required to reflect the policy preferences expressed by City Council on October 19, 2005, along with two alternative proposals presented by staff.

After deliberation, the City Council expressed its policy preference that staff develop a set of Market Cost Adjustments that reflects the following:

- The MCA for the I1 classes be set at 50% of level recommended by staff on October 19, 2005;
- The reduction in revenues arising from the 50% MCA level established for the I1 class be recovered in the following manner:
  - Up to \$500,000 is to be collected from the residential EA class provided that the group of customers receiving no increase under Council's October 19, 2005 expressed policy preference would see no more than a 10% increase in their bills; and
  - The remaining shortage (approximately \$1,000,000) is to be collected by identifying other savings throughout the city or other revenue sources and presented to Council as part of the mid year budget adjustment process.

**Issue:**

The Market Cost Adjustment reflecting the policy preferences expressed by City Council at its last meeting, and described above, is attached. For the residential class, the previous winter/summer split was reduced to a winter MCA that will be applied to residential customer bills to reflect the fact that the long-term rate structure will be put in place before the summer MCA would be applicable. A new table, showing the effect of these MCA modifications on an annualized basis on the average customer in each class is attached.

**Next Steps:**

As described at the last council meeting, the next two activities to address the long-term financial condition of the Electric Utility include the cost of service study/ "rate true up" and the risk management program.

**Cost of Service Study**

The cost of service study will form the basis for updating the city's overall rate structure. This updating has previously been referred to as "truing up" the rates. The primary goal of the update is to bring the base rates into alignment with actual costs and redistribute the amount of revenue that is recovered through the base rate as opposed to through the Market Cost Adjustment. A second goal will be to review and reaffirm or modify historical policy preferences regarding the application of discounted rates. The third and final goal will be to design a rate structure to implement the Council's policy preferences, including any transitional features should those be necessary.

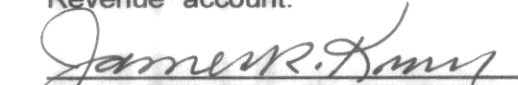
**Risk Management Program**


The risk management program, which constitutes the final phase of addressing Lodi Electric's long-term financial condition, will:

- Identify standardized reports that will be provided to city council that are necessary to ensure oversight of the electric utility;
- Establish the frequency, method and individual responsible for preparation and transmission of the standardized reports;
- Establish procurement strategies:
  - Recommended amounts of energy to procure on an advance basis vs. the spot market;
  - Recommended amounts of energy to procure through contract vs. ownership;
  - Recommended term lengths for procurement contracts; and
  - Authorization limits, checks and balances associated with procurement authorizations.
- Recommendations for implementing the risk management program.

**FISCAL IMPACT:** The fiscal impact of this action will be to reduce the imbalance between revenues and expenses as described in the body of this staff report.

**FUNDING:** Increased sales revenue associated with this action flow to the "Electric Operating Revenue" account.

  
James R. Krueger, Finance Director

  
David Dockham  
Interim Electric Utility Director

DD/ist

Attachments (4)

cc: City Attorney  
Finance Director

**Attachment 1**

**MARKET COST ADJUSTMENT BILLING FACTOR**

The Market Cost Adjustment Billing Factor by designated rate schedule,  
in cents per kilowatt-hour, shall be shown in the Section.  
Certain classes may have a tiered MCABF by level of monthly consumption.

EA		
Tier	kWh	cents per kWh
1	0-50	2.60
2	51-300	2.90
3	301-400	4.10
4	401-508	4.90
5	509-600	4.90
6	601-781	6.50
7	782-900	13.20
8	901-1,171	17.60
9	>1,171	19.00
EE		
Tier	kWh	cents per kWh
1	0-50	1.75
2	51-300	1.75
3	301-600	3.25
4	601-900	4.90
5	901-952	5.75
6	953-1,237	5.75
7	1,238-1,903	7.10
8	1,904-2,855	13.00
9	>2,855	20.00
ED		
Tier	kWh	cents per kWh
1	0-50	1.40
2	51-300	1.40
3	301-400	2.60
4	401-508	2.60
5	509-600	2.60
6	601-781	8.00
7	782-900	12.00
8	901-1,171	12.80
9	>1,171	15.20
EF		
Tier	kWh	cents per kWh
1	0-50	1.40
2	51-300	1.40
3	301-600	2.60
4	601-900	3.92
5	901-952	4.60
6	953-1,237	4.60
7	1,238-1,903	5.68
8	1,904-2,855	10.40
9	>2,855	16.00
Class	Type	cents per kWh
ES	All	0.94
EM	All	6.98
EL	All	1.00
Commercial/Industrial		
Class	Type	cents per kWh
G1	All	4.09
G2	All	4.83
G3	All	4.46
G4	All	3.36
G5	All	2.80
I1	<4,000 kW	3.12
I1	>4,000 kW	2.50

effective MCA for I1< 4000 kw is 1.56

## Attachment 2

## Effect of Interim MCA on Average Customer Bill

	Number of Customers	Lodi Annual Kw/hr	Average Consumption	10/19/2005 Increase in Avg Bill	11/2/2005 Increase in Avg Bill EUD Proposal	11/2/2005 Increase in Avg Bill As Modified	Equivalent Residential Units
EA	19,128	134,010,453	584	\$11.09	\$15.30	\$13.15	
EE	610	3,550,200	485	\$13.63	\$13.63	\$13.63	
ED Share	1,731	9,658,833	465	\$5.35	\$5.35	\$5.35	
EM Domestic	490	2,634,762	448	\$31.32	\$31.32	\$31.32	
<b>Residential</b>	<b>21,959</b>	<b>149,854,248</b>					
G1	3,032	42,511,770	1,168	\$13.32	\$13.32	\$13.32	2
G2	395	108,902,370	22,975	\$480.18	\$480.18	\$480.18	39
G3 Small	8	13,092,777	136,383	\$3,586.88	\$3,586.88	\$3,586.88	234
G4 Medium Industrial	8	21,224,562	221,089	\$3,493.21	\$3,493.21	\$3,493.21	379
Dusk to Dawn	96	414	-	\$0.00	\$0.00	\$0.00	0
City ES	122	8,068,421	5,511	\$0.00	\$0.00	\$0.00	0
<b>Commercial</b>	<b>3,661</b>	<b>193,800,314</b>					
G5	4	11,119,420	231,655	\$3,474.82	\$3,474.82	\$3,474.82	
I-1 General Mills	1	36,643,139	3,053,595	\$76,034.51	\$76,034.51	\$76,034.51	
Contract Medium	3	4,980,041	138,334	\$5,256.71	\$5,256.71	\$5,256.71	
Contract Large	5	56,719,861	945,331	\$21,553.55	\$21,553.55	\$21,553.55	
<b>Industrial</b>	<b>13</b>	<b>109,462,461</b>					
<b>System</b>	<b>25,633</b>	<b>453,117,023</b>					

**Comparison of Average Rates, Average Bills and Average Monthly Increases based on Councils expressed preferences versus the original EUD proposal**

[illegible]

Attachment 4

Summary of revenue changes and overall rate impacts associated with MCA increase

	Lodi Current Revenue	Lodi Energy KWh	Current Lodi Average Rate \$/kwh	Proposed Lodi Avg Rate \$/kwhr	% Change	Revenue at Proposed Rate
EA	\$ 19,637,674	134,010,453	\$ 0.1465	\$ 0.1690	15.33%	\$ 22,648,948
EE	\$ 460,503	3,550,200	\$ 0.1297	\$ 0.1578	21.68%	\$ 560,347
ED Share	\$ 813,324	9,658,833	\$ 0.0842	\$ 0.0957	13.65%	\$ 924,337
EM Domestic	\$ 208,802	2,634,762	\$ 0.0792	\$ 0.1491	88.09%	\$ 392,735
<b>Residential</b>	<b>\$ 21,120,303</b>	<b>149,854,248</b>	<b>\$ 0.1409</b>	<b>\$ 0.1637</b>	<b>16.13%</b>	<b>\$ 24,526,367</b>
G1	\$ 6,568,419	42,511,770	\$ 0.1545	\$ 0.1659	7.39%	\$ 7,054,106
G2	\$ 14,016,962	108,902,370	\$ 0.1287	\$ 0.1496	16.23%	\$ 16,291,675
G3 Small	\$ 1,534,402	13,092,777	\$ 0.1172	\$ 0.1435	22.47%	\$ 1,879,240
G4 Medium Industrial	\$ 2,280,317	21,224,562	\$ 0.1074	\$ 0.1232	14.69%	\$ 2,615,360
Dusk to Dawn	\$ 34,228	414		NA	NA	\$ 37,651
City ES	\$ 761,616	8,068,421	\$ 0.0944	NA	NA	\$ 837,778
<b>Commercial</b>	<b>\$ 25,195,944</b>	<b>193,800,314</b>	<b>\$ 0.1300</b>	<b>\$ 0.1482</b>	<b>13.97%</b>	<b>\$ 28,715,810</b>
G5	\$ 1,101,384	11,119,420	\$ 0.0991	\$ 0.1141	15.15%	\$ 1,268,226
I-1 General Mills	\$ 2,351,642	36,643,139	\$ 0.0642	\$ 0.0891	38.85%	\$ 3,265,270
Contract Medium	\$ 424,520	4,980,041	\$ 0.0852	\$ 0.1232	44.55%	\$ 613,657
Contract Large	\$ 3,520,437	56,719,861	\$ 0.0621	\$ 0.0849	36.85%	\$ 4,817,785
<b>Industrial</b>	<b>\$ 7,397,983</b>	<b>109,462,461</b>	<b>\$ 0.0676</b>	<b>\$ 0.0910</b>	<b>34.70%</b>	<b>\$ 9,964,939</b>
<b>System</b>	<b>\$ 53,714,229</b>	<b>453,117,023</b>	<b>\$ 0.1185</b>	<b>\$ 0.1395</b>	<b>17.67%</b>	<b>\$ 63,207,115</b>

RESOLUTION NO. 2005-247

A RESOLUTION OF THE LODI CITY COUNCIL  
IMPLEMENTING AND ADJUSTING THE MARKET  
COST ADJUSTMENT FOR ELECTRIC RATES

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WHEREAS, the Council of the City of Lodi finds as follows:

1. The City of Lodi provides electricity to its citizens through the Lodi Electric Utility Department;
2. The City charges customers of this utility a charge to fund the on-going operation and maintenance of the electric supply;
3. Wholesale electric costs have experienced severe volatility in the 2005-06 budget year and price volatility is expected to continue into the 2006-07 budget year;
4. The net cost for the cost increases in the 2005-06 budget year has to date been borne by the Electric Utility Department's reserves and will, if left unchecked, ultimately leave the account in a significant deficit;
5. The Lodi Municipal Code authorizes the City Council to impose by resolution a Market Cost Adjustment to address cost spikes in the wholesale electric market (Lodi Municipal Code Section 13.20.175).

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Lodi as follows:

Section 1.      Recitals. The foregoing recitals are true and correct.

Section 2.      Levy of Charges. Pursuant to Section 13.20.175 of the Lodi Municipal Code, the Market Cost Adjustment for electric rates is hereby implemented in the amounts shown on Exhibit "A" attached hereto and made a part of this Resolution.

Section 3.      Effective Date. This resolution shall take effect on December 2, 2005.

Dated: November 16, 2005

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I hereby certify that Resolution No. 2005-247 was passed and adopted by the City Council of the City of Lodi in a regular meeting held November 16, 2005, by the following vote:

AYES: COUNCIL MEMBERS – Hansen, Hitchcock, and Johnson

NOES: COUNCIL MEMBERS – Mounce and Mayor Beckman

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None



SUSAN J. BLACKSTON  
City Clerk



Attachment 1

## MARKET COST ADJUSTMENT BILLING FACTOR

The Market Cost Adjustment Billing Factor by designated rate schedule,  
in cents per kilowatt-hour, shall be shown in the Section.  
Certain classes may have a tiered MCABF by level of monthly consumption.

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8	1,904-2,855	10.40
9	>2,855	16.00
Class	Type	cents per kWh
ES	All	0.94
EM	All	0.71
EL	All	1.00
Commercial/Industrial		
Class	Type	cents per kWh
G1	All	4.09
G2	All	4.83
G3	All	4.46
G4	All	3.36
G5	All	2.80
I1	<4,000 kW	3.12
I1	>4,000 kW	2.50

effective MCA for I1 < 4000 kw is 1.56

filed 11-16-05  
K-2

Attachment 1 w/mods to Mobile Home

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Class	Type	cents per kWh
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G3	All	4.46
G4	All	3.36
G5	All	2.80
I1	<4,000 kW	3.12
I1	>4,000 kW	2.50

effective MCA for I1 < 4000 kw is 1.56

**Approve Resolution to Implement  
Market Cost Adjustment on  
December 2, 2005**

**City Council Meeting  
November 16, 2005**



Good 11-16-05  
K-2



# Overview

- **Action Tonight** – Council is requested to approve a resolution implementing Market Cost Adjustments as outlined in the staff report and attached to the resolution



# Background

- Oct 18, 2005 Financial Review –Shirtsleeve Session
  - Purchased Power Costs have increased by 29% (Katrina/Rita Effect)
  - Utility was operating in deficit condition since FY-03
  - Expenses exceed revenues by \$9.2 million in FY-06
  - Electric Fund Balances would be eliminated if a Market Cost Adjustment is not implemented
  - Delay in implementing the MCA increases rate increase required by 1.2% per month of delay or \$800,000 per month



## Background (Cont.)

- Oct 19, 2005 City Council Meeting
  - Financial Information reviewed
  - Market Cost Adjustment levels proposed
  - Public Feedback on recommended levels of MCA
  - After deliberation council direction:
    - Eliminate any rate decreases
    - Reduce I1 increases by 50%





## Background (cont)

- November 2 City Council Meeting
  - Council approved 2<sup>nd</sup> reading of Ordinance to implement MCA by resolution
  - Reviewed the updated MCA's and resulting financial affects of preferences expressed on October 19th
  - Expressed a preference that remaining shortfall be allocated as follows:
    - \$500,000 via residential rate payers
    - \$1,000,000 EUD/General Fund reductions



## Issue

- The final MCA's reflecting Council's expressed preferences are ready for council approval
  - Staff is submitting one additional option for council consideration tonight
    - Mobile Home Increase limited to 9% consistent with residential increase
    - Reduces average Mobile Home increase from \$31.32 per month to \$3.18 per month





Comparison of Average Rates, Average Bills and Average Monthly Increases based on Councils expressed preferences versus the original EUD proposal plus modifications to Mobile Home

	Number of	Lodi Annual	Average	Current	10/19/2005	11/2/2005 with Mobile Home Modification	10/19/2005	11/2/2005	Equivalent
	Customers	KWh	Consumption	Avg Rate Avg Bill	Avg Rate Avg Bill	Avg Rate Avg Bill	Avg Monthly Increase	Avg Monthly Increase	Residential Units
EA	19,128	134,010,453	584	0.1465 \$ 85.53	0.1655 \$ 96.62	0.1690 \$ 98.68	\$ 11.09	\$ 13.15	
EE	610	3,550,200	485	0.1297 \$ 62.90	0.1578 \$ 76.53	0.1578 \$ 76.53	\$ 13.63	\$ 13.63	
ED Share	1,731	9,658,833	465	0.0842 \$ 39.15	0.0957 \$ 44.50	0.0957 \$ 44.50	\$ 5.35	\$ 5.35	
EM Domestic	490	2,634,762	448	0.0792 \$ 35.49	0.1491 \$ 66.81	0.0863 \$ 38.67	\$ 31.32	\$ 3.18	
<b>Residential</b>	<b>21,959</b>	<b>149,854,248</b>							
G1	3,032	42,511,770	1,168	0.1545 \$ 180.52	0.1659 \$ 193.84	0.1659 \$ 193.84	\$ 13.32	\$ 13.32	2
G2	395	108,902,370	22,975	0.1287 \$ 2,956.91	0.1496 \$ 3,437.09	0.1496 \$ 3,437.09	\$ 480.18	\$ 480.18	39
G3 Small	8	13,092,777	136,383	0.1172 \$ 15,984.10	0.1435 \$ 19,570.97	0.1435 \$ 19,570.97	\$ 3,586.88	\$ 3,586.88	234
G4 Medium Industrial	8	21,224,562	221,089	0.1074 \$ 23,744.98	0.1232 \$ 27,238.19	0.1232 \$ 27,238.19	\$ 3,493.21	\$ 3,493.21	379
Dusk to Dawn	96	414	-	- \$ -	- -	- -	-	-	
City ES	122	8,068,421	5,511	0.0944 \$ 520.26	- -	- -	-	-	
<b>Commercial</b>	<b>3,661</b>	<b>193,800,314</b>							
G5	4	11,119,420	231,655	0.0991 \$ 22,956.97	0.1141 \$ 26,431.79	0.1141 \$ 26,431.79	\$ 3,474.82	\$ 3,474.82	
I-1 General Mills	1	36,643,139	3,053,595	0.0642 \$196,040.79	0.0891 \$272,075.31	0.0891 \$272,075.31	\$ 76,034.51	\$ 76,034.51	
Contract Medium	3	4,980,041	138,334	0.0852 \$ 11,786.10	0.1232 \$ 17,042.81	0.1232 \$ 17,042.81	\$ 5,256.71	\$ 5,256.71	
Contract Large	5	56,719,861	945,331	0.0621 \$ 58,705.06	0.0849 \$ 80,258.60	0.0849 \$ 80,258.60	\$ 21,553.55	\$ 21,553.55	
<b>Industrial</b>	<b>13</b>	<b>109,462,461</b>							
<b>System</b>	<b>25,633</b>	<b>453,117,023</b>							



# Comparison of Average Rates and Rate Increases

## Attachment 4

Summary of revenue changes and overall rate impacts associated with MCA increase

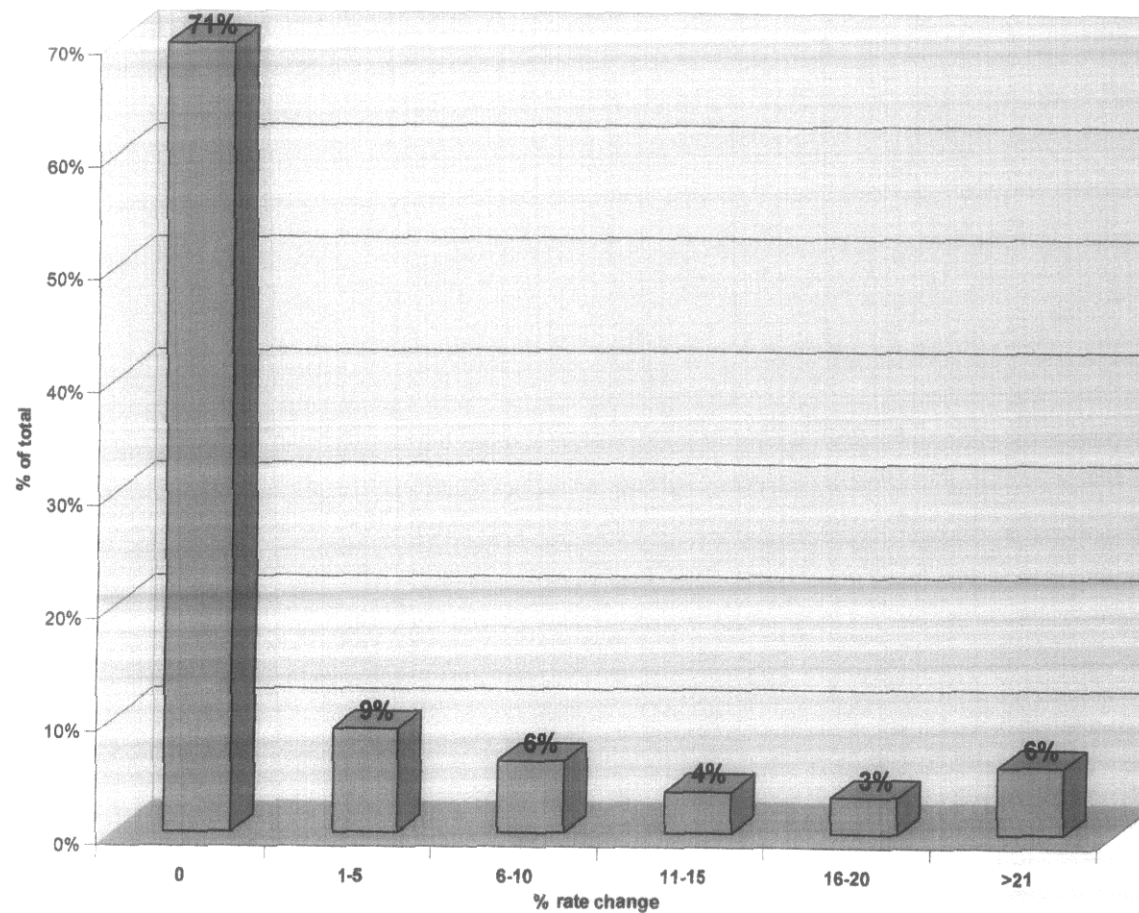
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ED Share	\$ 813,324	9,658,833	\$ 0.0842	\$ 0.0957	13.65%	\$ 924,337
EM Domestic	\$ 208,802	2,634,762	\$ 0.0792	\$ 0.0864	9.00%	\$ 227,486
<b>Residential</b>	<b>\$ 21,120,303</b>	<b>149,854,248</b>	<b>\$ 0.1409</b>	<b>\$ 0.1626</b>	<b>15.34%</b>	<b>\$ 24,361,118</b>
G1	\$ 6,568,419	42,511,770	\$ 0.1545	\$ 0.1659	7.39%	\$ 7,054,106
G2	\$ 14,016,962	108,902,370	\$ 0.1287	\$ 0.1496	16.23%	\$ 16,291,675
G3 Small	\$ 1,534,402	13,092,777	\$ 0.1172	\$ 0.1435	22.47%	\$ 1,879,240
G4 Medium Industrial	\$ 2,280,317	21,224,562	\$ 0.1074	\$ 0.1232	14.69%	\$ 2,615,360
Dusk to Dawn	\$ 34,228	414		NA	NA	\$ 37,651
City ES	\$ 761,616	8,068,421	\$ 0.0944	NA	NA	\$ 837,778
<b>Commercial</b>	<b>\$ 25,195,944</b>	<b>193,800,314</b>	<b>\$ 0.1300</b>	<b>\$ 0.1482</b>	<b>13.97%</b>	<b>\$ 28,715,810</b>
G5	\$ 1,101,384	11,119,420	\$ 0.0991	\$ 0.1141	15.15%	\$ 1,268,226
I-1 General Mills	\$ 2,351,642	36,643,139	\$ 0.0642	\$ 0.0891	38.85%	\$ 3,265,270
Contract Medium	\$ 424,520	4,980,041	\$ 0.0852	\$ 0.1232	44.55%	\$ 613,657
Contract Large	\$ 3,520,437	56,719,861	\$ 0.0621	\$ 0.0849	36.85%	\$ 4,817,785
<b>Industrial</b>	<b>\$ 7,397,983</b>	<b>109,462,461</b>	<b>\$ 0.0676</b>	<b>\$ 0.0910</b>	<b>34.70%</b>	<b>\$ 9,964,939</b>
<b>System</b>	<b>\$ 53,714,229</b>	<b>453,117,023</b>	<b>\$ 0.1185</b>	<b>\$ 0.1395</b>	<b>17.67%</b>	<b>\$ 63,207,115</b>



## Next Steps

- No further MCA for Industrial users proposed through this fiscal year
- Long Term Financial Plan
  - Cost of Service Study/Rate True Up
    - Realign base rates
    - Review historical policies embedded in rate design
    - Prepare updated rate design
  - Risk Management Program
    - Reporting/measurement
    - Procurement policies
    - Authorities and authorizations

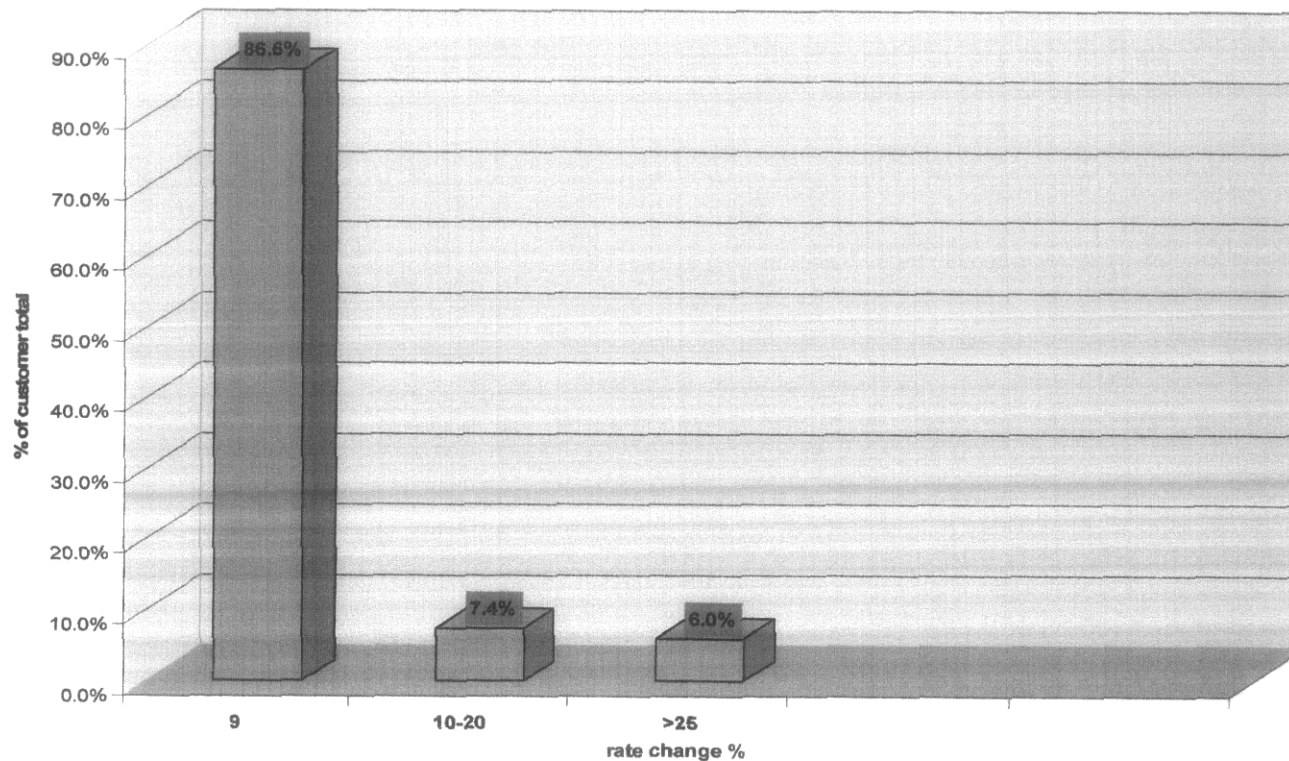
# Distribution under 10/19/2005 Proposal





# 11/2/2005 Policy Preference

Residential 9% min Proposal  
rate change at % of customers







# 11/2/2005 Policy Preference

Winter Residential Comparison of Rate Scenarios  
\$/kwh vs Monthly kwh

